Research on purchasers and suppliers of cash economy activity in Australia has been conducted in the Research School of Social Sciences at the ANU using two data sets – the first from a national survey conducted in July 2000, the second from a follow-up survey conducted in January 2002. The data that have been analyzed so far provide the following insights into cash economy behaviour and raise a number of questions for further investigation.

(1) Australians who engage in cash economy activity can be divided into two groups – what might be called, from a containment point of view, a hard target group and what might be called a soft target group. The hard target group are repeat players (they were involved in cash economy activity in 2000 and 2002). The soft targets move in and out of the cash economy over quite short periods of time (18 months in our research). The survey data that we currently hold should not be generalized to estimate the size of these groups. It is likely that in a mail-out survey the hard targets are under-represented. We obtained a sufficient number of responses from these groups, however, to gain some insight into the views of all groups about taxation, the tax office and government.

(2) The hard target group of suppliers (work for cash-in-hand without declaring it to the tax office) is most distinctive in its “estrangement” from the tax office. They are dismissive of the authority of the tax office, question the value of having a tax system, feel no shame or guilt about being caught for tax evasion, feel that the tax office does not treat them respectfully, and rate their chances of being caught as relatively low.
(3) Purchasers (pay others cash-in-hand) in the hard target group share many of these views – they feel that the tax office does not treat them well, feel no shame or guilt at the prospect of being caught for tax evasion, and rate their chances of being caught for tax evasion as relatively low. Purchasers differ from suppliers, however, in believing that the tax system can work for the benefit of all - but they perceive weaknesses in the way the system is currently working. Most notably, they see those in higher socio-economic groups as not paying their fair share of tax. It’s almost as if purchasers see themselves as helping out those who do not have access to the tax avoidance opportunities that come with social and economic privilege.

(4) In order to contain cash economy activity among the hard target group it is important to recognize that the purchaser-supplier relationship is one that is “morally disconnected” from regulators, enforcement and the legitimacy of government authority. It should not be thought of as an “under class” because those with wealth, education and social status are part of this group. But it is a group that is marginalized in terms of seeing the system of governance as being legitimate and operating with integrity. Both the hard target purchaser and supplier groups lack regard for law and government authority – albeit for different reasons. A question for the future is whether the problems posed by the hard target group extend beyond taxation into the territory of other government agencies. The hard target group show all the signs of being defiant when faced with government authority more generally. If this turns out to be the case, there is an important implication for containment of the cash economy problem. While the tax office needs to continue doing its job with the utmost integrity, it needs to be doing so as part of a whole of government approach to restoring Australians’ confidence in the system of governance.

(5) The soft target group of purchasers and suppliers appear, in most respects, to be no different from Australians who have never engaged in cash economy activity. The differences that do occur relate to their perceptions of what others think about
cash economy activity and their assessment of the chances of being caught. Those who are in and out of the cash economy think that others in the community regard cash economy activity as a normal part of daily life and they think that there is a fair chance of not getting caught. Possibly the driving force here is opportunity and the economic circumstances in which people find themselves. We will be looking at this more closely in the future. But to explain the idea further as a discussion point, having a cash economy job may be better than having no job at all or having a job that is too far away from home or a job that offers unsuitable hours. From a providers’ perspective, it may be that having someone working for cash-in-hand gives flexibility, or in the case of a business, opportunity for incremental growth in a competitive environment. In short, the transients, as suppliers or purchasers, may be struggling. There is some evidence to suggest that transient participants in the cash economy are dissatisfied with the way government spends taxpayers’ money.

(6) Cash economy activity should not be analyzed as an isolated problem. Participation in the cash economy is related to tax avoidance and tax evasion. Where tolerance of avoidance is high, evasion of all kinds will follow, cash economy activity simply being the type of evasion that is hardest for the authorities to track and the most accessible to those without the money to opt for the avoidance route. There is some evidence from overseas that cash economy activity is a reflection of the health of the democracy itself. Further research in Australia is needed to address this issue.

(7) It is also worth pointing out that our data clearly demonstrate that the glue for a tax system is moral obligation or the general belief that all of us, as Australians, should share the responsibility of paying our tax with good will. A marker of the strength of moral obligation in a society is that people who cooperate with the tax office report that they would feel guilty and ashamed if they were caught for tax evasion. Most Australians express both moral obligation and guilt/shame over tax evasion. Interestingly, while most people describe themselves as being of this
mind, they feel that they are alone. They believe that others don’t value the tax system and taxpaying as highly as they do and they feel generally disillusioned with the state of Australia’s democracy. For this reason, moral obligation needs to be protected and encouraged wherever possible. A first and very easy step is to acknowledge the voices of those who are supporting the tax system. The use of penalties, in particular, a graduated system of penalties (from civil to criminal) is also important in signaling to the community that compliance with tax law is valued and considered important by government and the community. What this set of research findings means for practice is that self-regulation (through conscience) is the best and most efficient regulatory strategy and needs to be reinforced at every opportunity. At the same time, enforcement and penalties need to be a visible back-up in circumstances where self-regulation has been given a chance and has clearly failed. This is the central proposition in the ATO Compliance Model.